



June 1, 2011

Shoshana M. Grove
Secretary
Postal Regulatory Commission
901 New York Avenue, NW, Suite 200
Washington, DC 20268-0001

Re: Docket No. MC2011-5

In accordance with Commission Order No. 667, issued on February 8, 2011, the Postal Service hereby provides its report discussing its interim and long-term procedures to measure costs for combined mailings of Standard Mail and Periodicals.

Sincerely,

Brandy A. Osimokun
Attorney

COMBINED MAILINGS OF STANDARD MAIL AND PERIODICALS COST DISCUSSION

INTRODUCTION

In Order No. 667, issued on February 8, 2011, the Postal Regulatory Commission (“Commission”) directed the Postal Service to file a report no later than June 1, 2011 in Docket No. MC2011-5 “discussing the interim and long-term procedures it has adopted (or, if applicable, plans to adopt) to obtain accurate measurement of the use of Postal Service mail processing resources by co-mailed and co-palletized Periodicals as distinct from the use of Postal Service mail processing resources by co-mailed and co-palletized Standard Mail.” The following report confirms that existing systems can still be expected to ascertain the costs for Periodicals and Standard Mail in light of this co-mail/co-palletization initiative.

MIXED CLASS PREPARATION

This program enables the combination of Periodicals and Standard Mail flats into a single mailing, which can at times allow mailers to achieve finer presort and deeper entry into the system. The increased volumes allow for mail prepared at lower total postage cost to our customers while saving the Postal Service processing resources by receiving more efficiently prepared mail. The mail can have pure Standard Mail bundles, pure Periodicals bundles, or mixed bundles that contain both Standard Mail and Periodicals flats. Each piece in the mailing is required to have the words “MIX COMAIL” visible in the Optional Endorsement Line (OEL). This visual endorsement aids Field employees in recognizing and processing Mixed Class Comail correctly.

The Mixed Class Comail presort software first tries to build a 10 piece mixed bundle for a particular destination. If that cannot be built, it looks at building a 6 piece Periodicals bundle. In preparing mixed bundles, the presort program does not choose whether a Standard Mail piece or Periodicals piece will be on the top. The order of pieces is random with respect to the class of mail. For example, a bundle in walk-sequence order

would be sorted without regard to the mail class of the pieces in the bundle. The pallets can contain pure Periodicals, pure Standard Mail, and Mixed bundles.

In a Mixed Class Copalletization operation, all bundles are either pure Periodicals or pure Standard Mail and the pallet level will have a random mix of Periodicals and Standard Mail bundles.

COST ATTRIBUTION FOR COMAILED AND COPALLETIZED PRODUCTS

Under current sampling procedures for the data systems and assuming that bundles and pallets continue to be built without regard for the type of product, costs will be correctly attributed for products such as Periodicals and Standard Mail that are comailed or copalletized.

Mail processing costs are allocated to products by the In-Office Cost System (IOCS), and transportation costs by the Transportation Cost System (TRACS).

When an IOCS data collector records a bundle, they record the product for the top piece, and the cost is assigned to that product.¹ Since Periodicals and Standard Mail are inserted into the bundle in random order, the probability that a Periodical will be the top piece and receive the tally cost is proportional to the volume of Periodicals in that bundle. Thus, on average, assigning the cost of a bundle to the top piece is an unbiased estimate of bundle costs. When a TRACS data collector records a bundle, they open the bundle and record information on all the pieces within.

When sampling pallets of bundles, data collectors inspect pallets and record the percentages of mail categories.² This will often be determined by examination of the top pieces of the top layer of bundles³. Since bundles are positioned on comail pallets without regard to the class of the top piece, inspection of the top layer of bundles on a

¹ See Handbook F-45, section 7.2.19 for IOCS, Handbook F-65, section 5.7.7.1 for TRACS

² See Handbook F-45, section 7.3.2 for IOCS, F-65, section 5.7.5 for TRACS

³ In IOCS, data collectors determine percentages by product for non-wheeled containers by counting the mailpieces, but generally this is not feasible with pallets composed of bundles.

pallet accurately reflects the proportions of products on the pallet. Data collectors may also use the pallet label if it has sufficient information to determine the proportions by mail category.

If the proportions of products on the pallet cannot be determined, the data collector records the percentage of handling items, such as bundles, trays and tubs. In the case of copalletized mail, these will generally all be bundles. Costs are distributed using the algorithms for mixed mail.⁴

Since bundles and pallets are built without regard to whether the mailpieces are Periodicals or Standard Mail, current procedures will allocate costs in proportion to the volume of each product in the bundle or pallet.

Comailing and copalletization do not affect data obtained by Carrier Cost Systems (CCS) since pallets and bundles are broken down to individual mailpieces before CCS sampling.⁵

⁴ USPS-FY10-7 for mail processing, USPS-FY10-36 for transportation.

⁵ Except for firm bundles addressed to a single address.